

Cowry Weekly Financial Markets Review & Outlook (CWR)

Segment Outlook:

ECONOMY: June 2019 Annual Inflation Rate Drops to 11.22% as Food Inflation Eases...

We expect inflation rate to rise in the coming months amid Central Bank of Nigeria's (CBN) recent policies to stimulate economic growth and further implementation of minimum wage for some categories of workers. President Muhammadu Buhari recently approved the immediate implementation of minimum wage for those federal workers earning below N30,000.

FOREX MARKET: Naira Depreciates Against USD at I&E FXW, Interbank FX Market...

In the new week, we expect appreciation of the Naira against the USD across the market segments as CBN sustains its special interventions against the backdrop of rising external reserves.

MONEY MARKET: NIBOR Rises Despite Renewed Liquidity Ease...

In the new week, T-bills worth N90.07 billion will mature via the secondary markets; however, we expect interbank interest rates to moderate in anticipation of financial system liquidity ease.

BOND MARKET: FGN Bond Rates Fall for All Maturities Tracked on Increased Demand...

In the new week, Debt Management Office will issue bonds worth N145.00 billion, viz: 12.75% FGN APR 2023 (5-Yr Re-opening) worth N40 billion, FGN APR 2029 (10-Yr Re-opening) worth N50 billion and FGN APR 2049 (30-Yr Re-opening) worth N55 billion respectively. We expect the bonds to be issued at lower stop rates amid sustained demand pressure on fixed income assets.

EQUITIES MARKET: Local Shares Dwindle by 2.27% on Sustained Bearish Run...

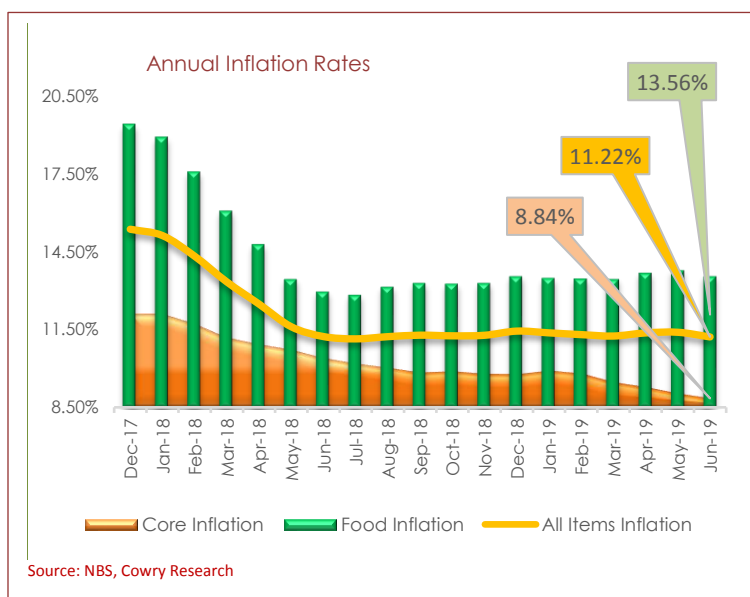
In the new week, we expect domestic shares to rise as investors anticipate the announcements of the H1 corporate results.

POLITICS: President Buhari Implements New Minimum Wage for Federal Workers Earning Below N30,000...

We commend the President for the bold step of implementing the new minimum wage for the federal workers earning below the N30,000. However we opine that timely implementation of the new minimum wage across the board should be the President's priority as treating a sectional part of the work force specially could demotivate other co-workers.

ECONOMY: June 2019 Annual Inflation Rate Drops to 11.22% as Food Inflation Eases...

Freshly released June inflation report showed that headline inflation rate slowed its uptrend, to 11.22% year-on-year (from 11.40% in May 2019). The recent decline in the annual inflation was chiefly driven by the decrease in annual food inflation rate as it slowed to 13.56% in June 2019 from 13.79% in June 2018. Similarly, monthly food inflation slowed m-o-m to 1.36% in the month of June from 1.41% in the month of May despite the worsened insecurity challenges in the country in recent months as well as the decline in food stockpiles which is usually the case during

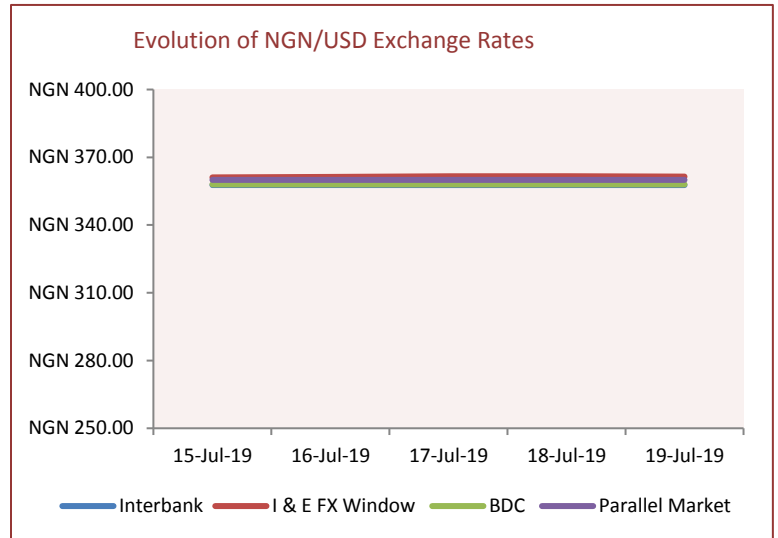


the planting season. Among the federating states, Kogi (+ 9.81%), Bayelsa (+ 9.97%) and Abia (+ 10.84%) recorded the slowest rise in food inflation; however, Kaduna (+ 17.50%), Kebbi (+ 16.96%) and Ondo (+ 16.44%) recorded the fastest increase in food prices. Also, annual core inflation eased further into single digit, 8.84%, in June 2019 from 9.03% in June 2018 on the back of slower transport (-0.35%) and energy (-0.12%) costs. However, we saw core inflation rate rise on a monthly basis to 0.85% (from 0.75% in May). This was partly caused by m-o-m increase in the costs of clothing & footwear (1.64%). Similarly, m-o-m change in price level for imported food increased by 1.34% as Naira depreciated against the USD in most FX market segments, especially at the interbank window as foreign exchange rate rose (i.e Naira depreciated) m-o-m by 0.10% to N357.10/USD in June 2019. Inflation rate in the urban and rural areas moderated y-o-y to 11.61% (from 11.76%) and 10.87% (from 11.08%) respectively. In another development, the Global Off-Grid Lightening Association (GOGLA), the global association for the off-grid solar energy industry, in its latest report titled “Providing Energy Access through Off-Grid Solar” stated that Nigeria was amongst the top five countries with the largest cash market of off-grid solar energy products. Of the 46 countries ranked, Nigeria moved up by three places to the fourth position in 2018 from the seventh position in 2017 as its cash sales increased by 58.6% to USD4.8 million in 2018 from the USD2.9 million it printed in 2017. According to the report, top countries ahead of Nigeria with respect to off-grid solar cash sales in 2018 were India (USD94.3 million), Kenya (USD18 million) and Ethiopia (USD10.8 million). Meanwhile, Nigeria’s deficit in thermal power delivery to its citizens might significantly be addressed amid the planned USD700 million Assa North Ohaji South (ANOS) gas and condensate field project by Seplat Petroleum Development Company Plc (Seplat). The ANOH gas processing project which will be managed by Anoh Gas Processing Company (AGPC), an incorporated joint venture between Seplat and Nigerian Gas Company, will deliver a 300 Million standard cubic feet per day (Mscfd). Similarly, the Vice-Chancellor of Obafemi Awolowo University (OAU), Ile-Ife, Osun State, Professor Eyiyo Ogunbodede stated that the institution has commenced power generating project that would make the institution generate Eight megawatts of electricity for the institution and exit the national grid by October 2019.

We expect inflation rate to rise in the coming months amid Central Bank of Nigeria’s (CBN) recent policies to stimulate economic growth and further implementation of minimum wage for some categories of workers. President Muhammadu Buhari recently approved the immediate implementation of minimum wage for those federal workers earning below N30,000. Meanwhile, high energy costs still remain one of the challenges producers grapple with; thus, significant improvement in the power sector will reduce average cost of production and impact positively on inflation rate. Elsewhere, ahead of the 268th Monetary Policy Committee (MPC) meeting scheduled for Monday and Tuesday, July 22 and 23, 2019, we expect the MPC to retain the MPR at 13.50%, within the existing asymmetric corridor of +2% and -5% inline with its current drive for economic growth.

FOREX MARKET: Naira Depreciates Against USD at I&E FXW, Interbank FX Market...

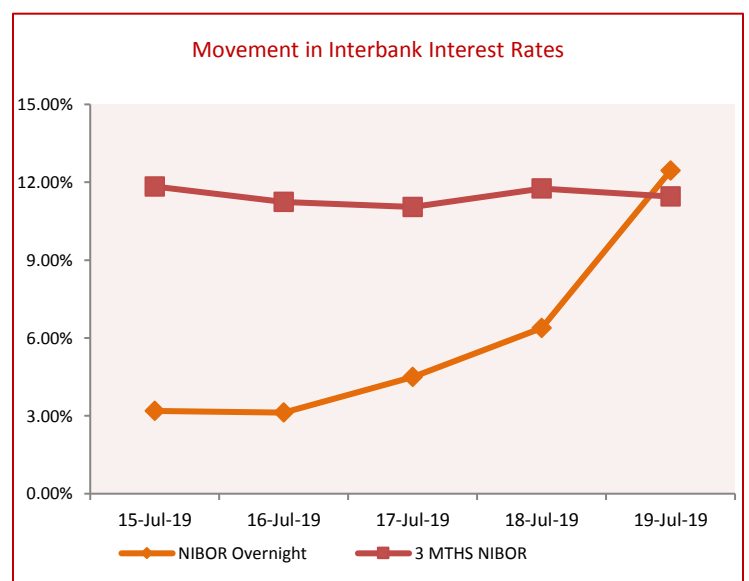
In the just concluded week, NGN/USD rate rose (i.e. Naira depreciated) at most foreign exchange market segments. Specifically, the NGN/USD exchange rate rose at the Investors and Exporters FX Window (I&E FXW) by 0.19% to N361.46/USD. Similarly, the Naira lost against the US dollar at the Interbank Foreign Exchange market by 0.05% to N357.70/USD despite the sustained weekly injections of USD210 million by CBN into the foreign exchange market via the Secondary Market Intervention Sales (SMIS), of which: USD100 million was allocated to Wholesale SMIS, USD55 million was allocated to Small and Medium Scale Enterprises and USD55 million was sold for invisibles. However, the exchange rate was flattish at the parallel (“black”) market and the Bureau De Change market at N360/USD and N358/USD respectively. Meanwhile, the Naira/USD exchange rate rose for most of the foreign exchange forward contracts – 1 month, 2 months, 3 months, 6 months and 12 months rates rose by 0.19%, 0.21%, 0.23%, 0.27% and 0.39% to close at N363.99/USD, N366.69/USD, N369.56/USD, N379.55/USD and N403.28/USD respectively. However, spot rate fell (i.e. Naira gained) by 0.02% to close at N306.95/USD,



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MONEY MARKET: NIBOR Rises Despite Renewed Liquidity Ease...

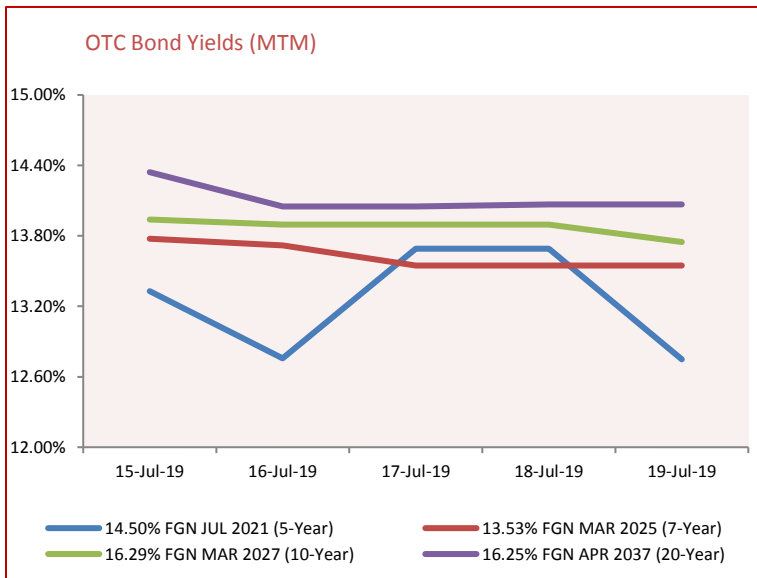
In the just concluded week, CBN auctioned treasury bills worth N107.05 billion Via Primary Market. On the back of increased demand from portfolio investors, stop rates moderated for all maturities. Specifically, stop rates for 91-day, 182-day and 364-day T-bills moderated to 9.74% (from 10.5%), 10.75% (from 11.70%) and 11.14% (from 11.91%) respectively in line with our expectation. Hence, the total outflows worth N107.05 billion partly offset the inflows from the matured T-bills worth N148.73 billion. Despite the financial system liquidity ease due to net inflows, NIBOR for overnight funds, 3 month and 6 months tenure buckets increased to 12.45% (from 2.85%), 11.45% (from 11.28%) and 12.46% (from 12.33%) respectively. However, NIBOR for 1 months tenure buckets moderated to 10.84% (from 10.86%). Elsewhere, NITTY moderated for all maturities tracked amid sustained bullish activity – yields on, 1 month, 3 months, 6 months and 12 months maturities fell to 8.99% (from 9.47%), 9.25% (from 10.22%), 10.77% (from 11.24%). and 12.36% (from 12.54%) respectively.



In the new week, T-bills worth N90.07 billion will mature via the secondary markets; however, we expect interbank interest rates to moderate in anticipation of financial system liquidity ease.

BOND MARKET: FGN Bond Rates Fall for All Maturities Tracked on Increased Demand...

In the just concluded week, the value of FGN bonds traded at the over-the-counter (OTC) segment fell for all maturities tracked in line with our expectation. Amid increased demand, the 5-year, 14.50% FGN JUL 2021 paper, the 7-year, 13.53% FGN MAR 2025 bond, the 10-year, 16.29% FGN MAR 2027 debt and the 20-year, 16.25% FGN APR 2037 instrument gained N0.99, N0.88, N1.30 and N1.96 respectively; their corresponding yields rose to 12.75% (from 13.33%), 13.55% (from 13.77%), 13.75% (from 14.01%) and 14.07% (from 14.34%)

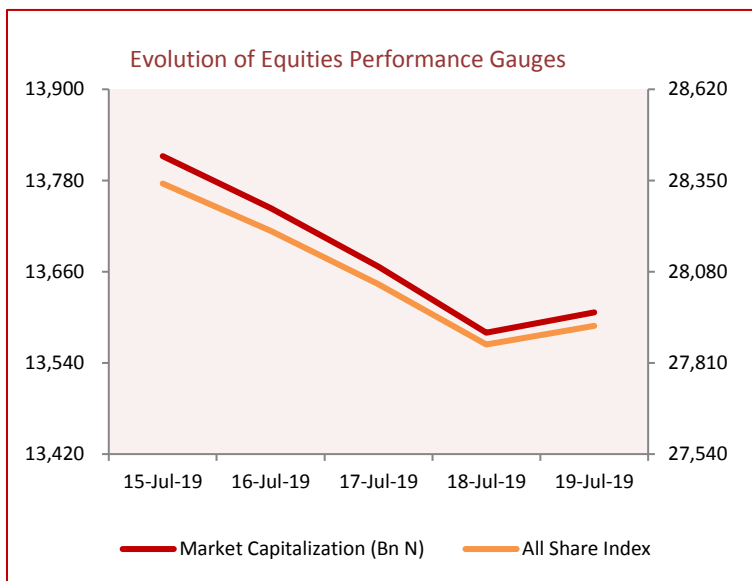


respectively. Elsewhere, the value of the FGN Eurobonds traded at the international capital market increased for all maturities tracked amid renewed bullish activity – the 10-year, 6.75% JAN 28, 2021, the 20-year, 7.69% FEB 23, 2038 and the 30-year, 7.62% NOV 28, 2047 bonds gained USD0.01, USD0.68 and USD0.85 respectively; their corresponding yields rose to 4.01% (from 4.05%), 7.46% (from 7.52%) and 7.59% (from 7.67%) respectively.

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EQUITIES MARKET: Local Shares Dwindle by 2.27% on Sustained Bearish Run...

In the just concluded week, the Nigerian bourse sustained its bearish momentum as investors' sentiment weakened. Hence, the overall market performance measure, NSE ASI, plunged to 27,919.50 points, having declined by 2.27% w-o-w. Similarly, all of the five sectoral gauges closed in red zone as NSE Banking Index, NSE Insurance Index, NSE Consumer Goods Index, NSE Oil/Gas Index and NSE Industrial Index, dwindled by 4.30%, 3.77%, 0.01%, 5.70% and 5.17% to 334.56 points, 115.08 points, 574.32 points, 229.59 points and 1043.90 points respectively.



Meanwhile, market activity remained weak as total deals and Naira votes moderated by 3.90% and 3.24% to 15,774 deals and N13.39 billion respectively; however, the total transaction volumes increased by 9.82% to 1.09 billion shares.

In the new week, we expect domestic shares to rise as investors anticipate the announcements of the H1 corporate results.

POLITICS: President Buhari Implements New Minimum Wage for Federal Workers Earning Below N30,000...

In the just concluded week, President Muhammadu Buhari approved immediate implementation of the new minimum wage for federal workers earning below N30,000, the current minimum wage. According to the Chairman, National Salaries, Income and Wages Commission, Chief Richard Egbule, the commencement of the approved payment would be determined by the Accountant-General and the payment would be backdated to when the President signed the agreement which was April 18, 2018. He said the approval will only affect salary of government agencies under the following salary structures: the Consolidated Public Service Salary Structure (CONPSS); Consolidated Health Salary Structure (CONHESS); Consolidated Research and Allied Institutions Salary Structure (CONRAISS); the Consolidated Tertiary Institutions Salary Structure (CONTEISS II); and Consolidated Tertiary Educational Institutions Salary Structure (CONTEDEISS). However, the fate of other federal workers earning above the new minimum wage might still be hanging as Chief Egbule stated that negotiations between the Federal Government and the joint National Public Service Negotiating Council on the consequential adjustment arising from the new minimum wage for officers who earn above N30,000 is ongoing. Meanwhile, Federal Government announced plan to deploy soldiers in some of the highways in the country with the hope that it will curb the worsened insecurity as kidnappings and killings of travelers have continued to spread to all parts of Nigeria. According to the Vice President, the deployment of military was to complement the efforts of the police currently operating "stop and search" model on the highways and use of helicopters to track the bandits and kidnappers that most times hide in forests. Amid worsened insecurity on the highways, on Wednesday, July 17, 2019 an army Colonel and Five other soldiers were reportedly killed by Boko Haram fighters on their way to Benisheikh in Yobe State.

We commend the President for the bold step of implementing the new minimum wage for the federal workers earning below the N30,000. However we opine that timely implementation of the new minimum wage across the board should be the President's priority as treating a sectional part of the work force specially could demotivate other co-workers. Nevertheless, we expect improvement in disposable income of this category of workers, who are at the bottom of the pyramid, as increased payment will be backdated. Elsewhere, we feel that Nigeria needs more sophisticated strategies in dealing with the insecurity challenge it is faced with as keeping soldiers on the highways will further stretch the already tightly engaged military. More so, the President's actions must reflect adequate political will to deal with criminals irrespective of their political, ethnic and religious affiliations.

Weekly Stock Recommendations as at Friday, July 19, 2019.

Stock	Last Qtr Result	Adjusted Forecast FY PAT	Current EPS	Forecast EPS	BV/S	P/B Ratio	PE Ratio	52 Weeks' High	52 Weeks' Low	Current Price	FY Price Target	Short term Stop Loss	Short term Take Profit	Upside Potential (%)	Recommendation
CAP	Q1 2019	1,995.75	2.90	2.85	4.01	6.17	8.54	40.00	24.75	24.75	40.00	21.04	29.70	61.62	Buy
Dangote Cement	Q1 2019	265,117.60	22.83	15.56	57.22	2.97	7.45	278.00	170.00	170.00	272.58	144.50	204.00	60.34	Buy
ETI	Q1 2019	116,231.12	4.13	4.70	26.33	0.34	2.18	22.15	9.00	9.00	23.31	7.65	10.80	159.02	Buy
FCMB	Q1 2019	15,920.00	0.76	0.80	9.49	0.17	2.12	3.61	1.32	1.60	3.99	1.36	1.92	149.22	Buy
Seplat Petroleum	Q1 2019	36,079.20	78.92	63.46	883.43	0.54	6.08	785.00	480.00	480.00	829.42	408.00	576.00	72.80	Buy
UBA	Q1 2019	114,660.00	2.30	3.35	15.88	0.35	2.39	13.00	5.50	5.50	16.63	4.68	6.60	202.35	Buy
Zenith Bank	Q1 2019	200,936.00	6.16	6.40	24.87	0.74	3.00	33.51	18.50	18.50	31.74	15.73	22.20	71.59	Buy

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